Overview of New DSH Requirements

Medicare Prescription Drug Improvement, and Modernization Act of 2003 (MMA)

The MMA added additional DSH reporting requirements for the states. These reporting requirements are specifically described in Sec. 1001: Medicaid Disproportionate Share Hospital (DSH) Payments as follows.

4. Requires increased reporting and other requirements for states that make DSH payments
    a. States must identify each DSH hospital that receives a DSH payment during the year
    b. States must submit an independent certified audit that verifies the extent to which hospitals in the state have reduced their uncompensated care costs, DSH payments that are in compliance with hospital specific limits set forth by federal regulation, and other verifications of hospital-specific limits

CMS issued clarification on this new reporting requirement in CMS proposed rule CMS-2198-P, published on August 26, 2005. A summary of the new reporting and audit provisions presented in the proposed rule is as follows.

CMS has prepared an Excel spreadsheet for states to use to transmit their DSH information. Beginning with each State's fiscal year 2005 and each subsequent State fiscal year, States must submit to CMS the following information for each DSH hospital:

a. **Hospital name**.
b. **Medicare provider number**.
c. **Medicaid provider number**.
d. **Type of hospital** (i.e. acute, long-term care, psychiatric, teaching, children's, rehabilitation, or other facility).
e. **Type of hospital ownership** (i.e. private, state-government, non-state government, Indiana Health Service, or tribal government). Each state must also indicate how the hospital is operated (i.e. privately, by state-government, etc.)
f. **Medicaid inpatient utilization rate**, as defined in 1923(b)(2) of the Act.
g. **Low-income utilization rate**, as defined in 1923(b)(3) of the Act. The calculation should include only individuals that have no source of third party coverage for the inpatient and/or outpatient hospital services they receive.
h. **Total annual disproportionate share hospital payments paid to each hospital**. Section 1011 of the MMA also makes available to states $250 million for each of fiscal years 2005 through 2008 for the reimbursement of emergency health services furnished to undocumented aliens. The receipt of these payments will not affect the calculation of a hospital's Medicaid DSH payment amount so long as the hospital has not reached its DSH cap. States will, however, have to consider these payments for hospitals receiving DSH payments at or near their DSH limit. This is because total DSH payments must not exceed the total amount of uncompensated care at the hospital.
i. **Total annual Medicaid rate payments paid to each hospital by the State.** This should not include DSH payments or supplemental/enhanced Medicaid payments for inpatient and outpatient services furnished to Medicaid eligible individuals).
j. **Total annual Medicaid managed care organization payments paid to each hospital.**

k. **Total annual supplemental/enhanced Medicaid payments paid to each hospital by the State.**
l. **Total annual indigent care revenue payments paid to each hospital** (from individuals with no source of third party coverage for inpatient and outpatient hospital services they receive).
m. **Total annual amount of funds transferred by the hospital to the State or local governmental entity as a condition of the hospital receiving any Medicaid or DSH payment.**
n. **Total annual cost of care.** These costs refer to costs incurred for furnishing hospital services to Medicaid-eligible and uninsured individuals.
o. **Total annual uncompensated care costs for serving Medicaid and uninsured individuals.** These costs do not include bad debt or payer discounts.
p. **Total annual unduplicated number of Medicaid-eligible and uninsured individuals receiving hospital services.**

The proposed rule also includes a number of specific provisions related to the requirement that states submit an independent certified audit to CMS as a new condition to receive DSH payments.

The independent certified audit report must specifically verify the following:

(1) Each hospital that qualifies for a DSH payment in the State has reduced its uncompensated care costs for furnishing inpatient hospital and outpatient hospital services during the State Fiscal Year to Medicaid eligible and uninsured individuals in order to reflect the total amount of claimed DSH expenditures.
(2) DSH payments made to each qualifying hospital comply with the hospital-specific DSH payment limit within the same State Fiscal Year.
(3) Only uncompensated care costs of furnishing inpatient and outpatient hospital services to Medicaid-eligible and uninsured individuals are included in the calculation of the hospital-specific disproportionate share limit payment limit.
(4) For purposes of this hospital-specific limit calculation, any Medicaid payments made to a disproportionate share hospital for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals, which are in excess of the Medicaid incurred costs of such services, are applied against the uncompensated care costs of furnishing inpatient hospital services to individuals with no source of third party coverage for such services.
(5) Any information and records of all of its inpatient and outpatient hospital service costs under the Medicaid program; claimed expenditures under the Medicaid program; uninsured inpatient and outpatient hospital service costs in determining payment adjustments under this section; and any payments made on behalf of the uninsured from payment adjustments under this section has been separately documented and retained by the State. This must include a description of the methodology for calculating each hospital's payment limit, as well as a specific description of how the State defines incurred inpatient hospital and outpatient hospital costs for services to Medicaid-eligible and uninsured individuals.

Finally, the audit must be submitted to CMS no later than one year after the completion of each state's fiscal year.